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OMB BULLETIN NO. 93-06

**TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS AND
INSPECTORS**

GENERAL OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Requirements for Federal Financial Statements

1. Purpose. This Bulletin, which includes an Attachment and Appendices A and B, establishes requirements for audits of Federal financial statements. The Bulletin is issued under the authority of the Budget and Accounting Act of 1921, as amended, and the Budget and Accounting Procedures Act of 1950, as amended. It implements the audit provisions of the Chief Financial Officers (CFOs) Act of 1990 (P.L. 101-576). The requirements of this Bulletin are set forth in the Attachment.

2. Applicability. The provisions of the Bulletin apply to those executive departments and agencies listed in Appendix A of this Bulletin.

3. OMB Responsibilities. The CFOs Act requires the Office of Management and Budget (OMB) to establish government-wide financial management

policies for executive departments and agencies and to provide overall direction and leadership to the Executive Branch on financial management matters.

4. Effective Date. The provisions of this Bulletin are effective immediately. Audit reports shall be submitted to the agency head no later than June 30th following the end of the fiscal year for which the financial statements were prepared.

5. Inquiries. Further information concerning this Bulletin may be obtained by contacting the Office of Federal Financial Management, OMB, Washington, DC 20503, telephone (202) 395-3993.

6. Copies. Individual copies of this Bulletin may be obtained from the Executive Office of the President, Publication Services, at (202) 395-7332.

Richard Darman

Director

Attachments

OMB Bulletin No. 93-

ATTACHMENT

AUDITS OF FEDERAL FINANCIAL STATEMENTS

1. BACKGROUND. The Chief Financial Officers (CFOs) Act of 1990 requires, among other things, the annual preparation and audit of financial statements covering, at a minimum, revolving funds, trust funds, and accounts of each office, bureau and activity performing substantial commercial functions of 23 executive departments and agencies. The Act also requires organization-wide financial statements and audits for certain designated pilot organizations.

2. DEFINITIONS. For the purposes of this Bulletin, the following definitions apply:

- a. "Annual Financial Statement" means the financial statement of a reporting entity as described in Section 3515 of the CFOs Act, and shall be comprised of:

- (1) Overview of the Reporting Entity.

- (2) Principal Statements.

- (3) Combining Statements.
- (4) Supplemental Financial and Management Information.

The Principal Statements include:

- (1) Statement of Financial Position.
 - (2) Statement of Operations and Changes in Net
Position.
 - (3) Statement of Cash Flows.
 - (4) Statement of Budget and Actual Expenses.
 - (5) Notes to Principal Statements.
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- b. Government Auditing Standards means the standards for audit of governmental organizations, programs, activities, and functions issued by the Comptroller General of the United States.
 - c. "Independent auditor" means a Federal auditor or public accountant who meets the standards specified in the Government Auditing Standards issued by the Comptroller General of the United States.
 - d. "Internal control structure," as it relates to the financial

statements required by the CFOs Act and discussed in this Bulletin, means the plan of organization and policies and procedures adopted by management to provide reasonable assurance that the following objectives are met:

- (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- (2) funds, property and other assets are safeguarded against loss from unauthorized use or disposition;
- (3) transactions, including those related to obligations and costs, are executed in compliance with: (a) laws and regulations that could have a direct and material effect on the Principal Statements and, where applicable, Combining Statements, and (b) any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspectors General (IGs) have identified as being significant for which compliance can be objectively measured and evaluated; and

(4) data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

- e. "Management Letter" means a letter prepared by the auditor which discusses findings and recommendations for improvements in the internal control structure, that were identified during an audit and were not required to be included in the auditor's report on internal control structure, and other management issues. Management issues include matters relating to operational controls (such as organization structure, policies, systems, procedures, and techniques for monitoring performance), financial controls, and administrative controls. See Chapter 5, paragraph 25 of Government Auditing Standards. The management letter may also expand on recommendations included in required audit reports but cannot be used as a substitute for reporting matters required to be included in those reports.
- f. "Overview of the Reporting Entity" means a narrative discussion and analysis of the financial condition and results of operation of the reporting entity prepared by

management. This discussion should present information based on the results of an analysis of relevant financial and performance data of the programs, activities, and funds that make up the reporting entity. OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," and subsequent issuances, further define "Overview of the Reporting Entity."

- g. "Reporting Entity" means an agency, bureau, or other organization that represents a meaningful unit for program management, or a single or group of revolving funds, trust funds, or commercial functions, as defined in the CFOs Act for which a financial statement is prepared. OMB Bulletin No. 93-02 and subsequent issuances further define "Reporting Entity."

3. FREQUENCY OF AUDIT. Audits shall be performed annually.

4. RESPONSIBILITY FOR AUDIT. For purposes of this Bulletin, the following responsibilities apply:

- a. For the 23 executive departments and agencies listed in Appendix A, the audits of financial statements shall be

performed by the IG of the agency or by an independent external auditor as determined by the IG of the agency.

- b. The statute provides that, in lieu of an audit otherwise required, the Comptroller General of the United States may, at his discretion and following consultation with the IG, perform the audit.

5. ACCOUNTING PRINCIPLES AND STANDARDS. The Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal accounting standards to the Secretary of the Treasury, the Director of the OMB, and the Comptroller General, who are Principals of the Joint Financial Management Improvement Program (JFMIP). Specific standards agreed upon by these three officials will be issued by the Director of OMB and the Comptroller General.

Pending issuance of final accounting standards, FASAB has recommended, and the Secretary of the Treasury, the Director of OMB, and the Comptroller General have agreed to the following interim guidance:

"in order to provide a benchmark for preparing financial statements presented for audit, executive agencies shall continue using the applicable accounting standards (i.e., those contained

in agency accounting policy, procedures manuals, and/or related guidance) now in effect for the preparation of their financial statements, pending FASAB recommendations and JFMIP Principals' adoption of Federal accounting standards."

Financial statements prepared in accordance with this interim guidance, which are consistent with the general instructions for the preparation of Principal Statements and Notes thereto contained in OMB Bulletin No. 93-02 and subsequent issuances, should be considered to be statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, as defined in AU Section 623.04(a) of the American Institute of Certified Public Accountants (AICPA's) Codification of Statements on Auditing Standards. Financial Statements prepared in accordance with accounting principles applicable to similar activities in the private and State and local sectors promulgated by authoritative standard-setting bodies and other authoritative sources may be considered to be in accordance with generally accepted accounting principles.

6. SCOPE OF AUDIT. Financial statements shall be audited in accordance with Government Auditing Standards and the provisions of this Bulletin.

a. The auditor shall:

(1) Determine whether the Principal Statements and, where applicable, Combining Statements present fairly in all material respects the financial position, results of operations and changes in net position, cash flow, and budget and actual expenses in accordance with OMB Bulletin No. 93-02 and subsequent issuances or generally accepted accounting principles, as applicable.

(a) The IG, in consultation with the CFO, may decide that an audit for the purpose of opining on the Combining Statements will not improve the meaningfulness of the Principal Statements. In those instances, the auditor should consider the Combining Statements supplemental information and report in accordance with paragraph 7c(1)(a) of this Bulletin.

(b) If the auditor is unable to determine whether the Principal Statements are fairly presented because, for example, of the auditor's inability to obtain sufficient competent evidential matter or an inadequacy in the accounting records, the

auditor should, to the extent practicable,
obtain sufficient evidence about closing
balances to enable the auditor to opine on the
subsequent year's financial statements.

- (2) Determine whether the reporting entity has an internal control structure that provides reasonable assurance of achieving the internal control structure objectives described in paragraphs 2d(1), (2) and (3) of this Bulletin. The auditor shall make this determination, in part, by obtaining an understanding of the significant internal control structure policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant internal control structure policies and procedures that have been properly designed and placed in operation, the auditor shall perform sufficient tests to justify a low assessed level of control risk. See AU Section 319.30-.60 of the AICPA's Codification of Statements on Auditing Standards. Those significant internal control structure policies and procedures that have not been properly designed or placed in

operation and those significant internal control structure policies and procedures that are found to be ineffective shall be reported in accordance with paragraph 7 of this Bulletin. While this Bulletin only applies to the audit of financial statements for the fiscal year ended September 30, 1992, it is OMB's intent that for future years, with respect to the financial statements being audited, auditors shall comply with the provisions of AU Section 642.03-.46 of the AICPA's Codification of Statements on Auditing Standards, or successor standards, under which the auditor performs tests sufficient to render an opinion on whether the reporting entity's internal control structure is sufficient to meet the internal control structure objectives described in paragraphs 2d(1), (2) and (3) of this Bulletin. Accordingly, in complying with the provisions of this paragraph, auditors should assess what additional audit procedures, if any, will be necessary to fulfill OMB requirements in future years. These additional procedures should be included in future audit plans.

- (3) Obtain an understanding of the internal control

structure as it relates to the existence and completeness assertions described in AU Section 319.27 of the AICPA's Codification of Statements on Auditing Standards, which provides guidance for the consideration of the internal control structure in a financial statement audit, and assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving the internal control structure objective described in paragraph 2d(4) of this Bulletin. OMB intends to expand the auditor's responsibilities in this area in future years.

- (4) Determine whether the reporting entity has complied with laws and regulations that could have a direct and material effect on the Principal Statements and, where applicable, Combining Statements and any other laws and regulations that OMB, entity management, or the IGs have identified as being significant to the audit for which compliance can be objectively measured and evaluated. This determination of compliance shall include, but not be limited to, obtaining an understanding of the process by which the agency

identifies and evaluates weaknesses required to be reported under the Federal Managers' Financial Integrity Act (FMFIA) and related agency implementing procedures as it relates to the entity under audit. In this regard, the auditor shall compare material weaknesses and other reportable conditions found when performing the procedures prescribed in paragraph 6a(2) of this Bulletin and other audit procedures with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements of the entity under audit. (Appendix B provides a listing of general laws applicable to Federal agencies.)

- (5) Assess whether the information and manner of its presentation in the Overview of the Reporting Entity and in the Supplemental Financial and Management Information sections are materially inconsistent with the information in the Principal Statements and, where applicable, the Combining Statements.

- b. The IGs are strongly encouraged to develop audit plans that achieve both programmatic and financial statement audit

objectives simultaneously, while complying with the audit requirements of the CFOs Act. The IGs are further encouraged to develop recommendations that could result in more beneficial data for users of financial statements.

7. AUDIT REPORTS.

- a. Audit reports shall be prepared at the completion of the audit. Audit reports shall be submitted to the agency head no later than June 30th following the end of the fiscal year for which financial statements were prepared. IGs are encouraged to work with CFOs to accelerate the preparation of financial statements, and to accelerate the completion of audits. The audit results should be discussed with management as soon as practicable but, in any case, prior to issuance of audit reports.
- b. The audit report shall state that the audit was made in accordance with Government Auditing Standards and the provisions of this Bulletin.
- c. The audit report shall be made up of at least the following three parts:

(1) A report containing an opinion as to whether the reporting entity's Principal Statements, and, where applicable, Combining Statements are fairly presented in all material respects in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles (see OMB Bulletin No. 93-02 and subsequent issuances). See AU Sections 508 and 623 of the AICPA's Codification of Statements on Auditing Standards for reporting guidance.

(a) In those instances in which the IG, in consultation with the CFO, considers the Combining Statements to be supplemental information, the auditor should express an opinion as to whether they are fairly stated in all material respects in relation to the Principal Statements taken as a whole. See AU Section 551.06-.11 of the AICPA's Codification of Statements on Auditing Standards for reporting guidance.

(b) If the financial statements are not prepared in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles (see OMB Bulletin No. 93-02 and subsequent issuances), the auditor should disclose the departure(s) from those standards and, if practicable, the effects of the departure(s) on financial position, results of operations and changes in net position, cash flows, and budget and actual expenses either directly in the auditor's report or by reference in the auditor's report to an explanatory note in the Notes to Principal Statements prepared by management.

(c) It may not be possible to render an opinion on the Principal Statements and, where applicable, Combining Statements in the initial years of audit. If the auditor disclaims an opinion, the report should describe why the auditor was unable to conduct an audit in accordance with Government Auditing Standards. If material

weaknesses and other reportable conditions prevented the conduct of the audit in accordance with Government Auditing Standards, such conditions should be included in the report on internal control structure described in paragraph 7c(2). Recommendations for strengthening the financial reporting system should be presented in the report on internal control structure or management letter, as appropriate.

(2) A report on internal control structure which conforms with the requirements of Government Auditing Standards and this Bulletin. See AU Section 801 of the AICPA's Codification of Statements on Auditing Standards for reporting guidance. The report shall at a minimum:

(a) State that, with respect to the internal control structure categories pertaining to the financial statements, the auditor obtained an understanding of the design of significant internal control structure policies and procedures, determined whether they have been

placed in operation, assessed control risk, and performed tests of the reporting entity's internal control structure.

(b) State that, with respect to the performance measure control objective described in paragraph 2d(4) of this Bulletin, the auditor obtained an understanding of relevant internal control structure policies and procedures designed to achieve this control objective and assessed control risk.

(c) Classify reportable conditions and material weaknesses identified in accordance with the following definitions:

(i) Reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's

ability to meet the objectives in
paragraph 2d of this Bulletin.

(ii) A material weakness in the internal control structure is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The auditor should use this definition of a material weakness to report on an entity's internal control structure in accordance with the requirements of Government Auditing Standards and this Bulletin rather than the material weakness

definition used by management to prepare
an agency's FMFIA report.

(3) A report on the reporting entity's compliance with
applicable laws and regulations. See AU Section 801
of the AICPA's Codification of Statements on Auditing
Standards for reporting guidance.

(a) For compliance with laws and regulations, a
material instance of noncompliance shall be
reported if, in the auditor's judgment, the
violation could result in a material
misstatement in the Principal Statements and,
where applicable, Combining Statements, or if
the sensitivity of the matter would cause it to
be perceived as significant by others.

(b) For compliance with FMFIA and related agency
implementing procedures, a condition of
noncompliance shall be reported when the auditor
determines the process as applied to the
financial statements being audited is not
conducted in accordance with OMB guidelines for

the evaluation, improvement and reporting on internal control systems in the Federal Government (OMB Circulars A-123, "Internal Control Systems," and A-127, "Financial Management Systems") or there is a conflict between the agency's most recent FMFIA report(s) and the auditor's evaluation of the entity's internal control structure.

d. In preparing the reports in paragraph 7c, the auditor should:

(1) Disclose in an explanatory paragraph in the audit report on the financial statements material inconsistencies among the Overview of the Reporting Entity, the Principal Statements, the Combining Statements, and the Supplemental Financial and Management Information.

(2) Disclose in the audit report on internal control structure or report on compliance, as appropriate, the status of known but uncorrected significant findings and recommendations from prior audits that affect the

current audit objectives. See Chapter 3, paragraph 41 of Government Auditing Standards.

(3) Include in the audit report on compliance any material weaknesses not reported under FMFIA and related agency implementing procedures, if these matters continue to exist.

e. The reporting entity shall provide comments on the auditor's findings and recommendations included in the audit reports, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. These comments should be included in the audit report on internal control structure or report on compliance, except when management fails to respond in a timely manner. If corrective actions are not necessary, an explanatory statement should be included in the audit report.

f. Copies of the audit reports shall be distributed to the head of the department or agency and subsequently included in the CFO's annual report.

8. MANAGEMENT LETTER. Conditions that are not included in the required

audit reports, but that the auditor considers necessary to communicate, should be separately communicated to the audited entity in a management letter. (See definition of management letter in paragraph 2e of this Bulletin.)

9. AUDIT COSTS AND BENEFITS. The CFOs Act provides for OMB to report on the costs associated with auditing financial statements.

- a. The IGs, in coordination with the CFOs, shall establish a system for tracking audit costs relating to each financial statement audit. The audit costs shall be accumulated by the fiscal year to which the financial statements relate rather than the fiscal year in which the work is performed. At a minimum, records should be kept to track the costs of all related contracts, the number of staff days, and the amount of travel and other expenses incurred for each audit.
- b. The IGs, in coordination with the CFOs, shall also determine the benefits that were derived from the audits. Examples of benefits might include disclosures of weaknesses in the internal control structure, management improvements that need strengthening, and dollar savings realized.

10. INSPECTOR GENERAL OVERSIGHT. IGs shall:

- a. Ensure that audits are performed and audit reports completed in a timely manner and in accordance with the requirements of this Bulletin. This responsibility pertains to audits conducted directly by IG staff and audits conducted by independent auditors under contract.
- b. Provide technical advice and liaison to agency officials and independent external auditors.
- c. Obtain or make quality control reviews of audits made by independent external auditors and provide the results, when appropriate, to other interested organizations.
- d. Monitor and report on management's progress in resolving audit findings related to audits made pursuant to this Bulletin, in accordance with the provisions of Section 5(a)6 of the Inspector General Act of 1978, as amended (Pub. L. 95-452), and the provisions of OMB Circular A-50, "Audit Followup."

11. EXCEPTIONS. The Director may provide exceptions to requirements

of this Bulletin upon the written request of an IG. These exceptions will not exempt an IG from the minimum requirements of Government Auditing Standards.

When requesting an exception from the requirements of this Bulletin, the IG should (a) explain the factors that may preclude full compliance with this Bulletin, (b) describe the plan that will facilitate full compliance in future periods, and (c) make clear the anticipated time schedule under which full compliance with these requirements will be achieved. The IG should provide a copy of the request to the agency head.

OMB will respond to any exception request in writing. If an exception is granted, the IG shall explain, in an explanatory paragraph in each of the required audit reports or in a separate transmittal bound with the audit reports, those portions of the audit scope, presented in paragraph 6a of this Bulletin, not performed.

APPENDIX A

FEDERAL AGENCIES REQUIRED TO PREPARE FINANCIAL STATEMENTS

Department of Agriculture

Department of Commerce

Department of Defense

Department of Education

Department of Energy

Department of Health and Human Services

Department of Housing and Urban Development

Department of the Interior

Department of Justice

Department of Labor

Department of State

Department of Transportation

Department of the Treasury

Department of Veterans Affairs

Agency for International Development

Environmental Protection Agency

Federal Emergency Management Agency

General Services Administration

National Aeronautics and Space Administration

National Science Foundation

Nuclear Regulatory Commission

Office of Personnel Management

Small Business Administration

APPENDIX B

GENERAL LAWS

Anti-Deficiency Act, ch. 510 3, 34 Stat. 49 (codified as amended in 31 U.S.C. ss1341, 1342, 1349-1351, 1511-1519 (1988))

Budget and Accounting Procedures Act of 1950, ch. 946, 64 Stat. 832
(codified as amended in various sections of 31 U.S.C.)

Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838
(codified in various sections of 5 U.S.C., 31 U.S.C., 38 U.S.C., 42 U.S.C.)

Civil Service Reform Act of 1978, Pub. L. No. 95-454, 92 Stat. 1111
(codified in various sections of 5 U.S.C., 10 U.S.C., 15 U.S.C., 28 U.S.C., 38 U.S.C., 39 U.S.C., 42 U.S.C.)

Civil Service Retirement Act of 1930, ch. 34 1-18, 46 Stat. 468, as
renumbered July 31, 1956, Ch. 804, title IV, s401, 70 Stat. 743 (codified
as amended in 5 U.S.C. sS1308, 3323, 8331-8348 (1988))

Debt Collection Act of 1982, Pub. L. No. 97-365, 96 Stat. 1749 (codified

in various sections of 5 U.S.C., 18 U.S.C., 26 U.S.C., 28 U.S.C., 31 U.S.C.)

Fair Labor Standards Act of 1938, ch. 676, 52 Stat. 1060 (codified as amended in 29 U.S.C. ss201-219 (1988))

Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388-610 (codified in various sections of 2 U.S.C.)

Federal Debt Collection Procedures Act of 1990, Pub. L. No. 101-647, Title XXXVI, Subtitle A, ss3611, 104 Stat. 4933 (codified in various sections of 28 U.S.C.)

Federal Employees' Compensation Act, ch. 458, 39 Stat. 742 (codified as amended in various sections of 5 U.S.C.)

Federal Employees' Group Life Insurance Act of 1980, Pub. L. No. 96-427, 94 Stat. 1831 (codified in various sections of 5 U.S.C.)

Federal Employees Health Benefits Act of 1959, Pub. L. No. 86-382, 73 Stat. 708 (codified as amended in various sections of 5 U.S.C.)

Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 Stat. 814, 31 U.S.C. ss1105, 1113, 3512 (1988)

National Defense Authorization Act for Fiscal Year 1991, Pub. L. No. 101-510, 104 Stat. 1485, 1675, 31 U.S.C. ss1551-1557

Prompt Payment Act, Pub. L. No. 97-177, 96 Stat. 85, 31 U.S.C. SS3901-3906 (1988)

Single Audit Act of 1984, Pub. L. No. 98-502, 98 Stat. 2327, 31 U.S.C. ss7501-7507 (1988)

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